

THE TURNPIKE AUTHORITY OF KENTUCKY
DECEMBER 17, 2008
1:00 P.M.
ROOM 182, CAPITOL ANNEX

The Turnpike Authority of Kentucky (the Authority) met Wednesday, December 17, 2008 at 1:00 P.M. in room 182 of the Capitol Annex.

Members present were Secretary Larry Hayes, Governor's Office, in the chair presiding, proxy for Honorable Stephen L. Beshear, Governor of the Commonwealth; Jeff DeRouen, proxy for Daniel Mongiardo, Lt. Governor of the Commonwealth; Lori Flanery, proxy for Jonathan Miller, Secretary, Finance and Administration Cabinet; Tammy Branham, proxy for Joseph W. Prather, Secretary, Transportation Cabinet; Mike Hancock, State Highway Engineer; George Burgess, proxy for Larry Hayes, Interim Secretary, Economic Development Cabinet; and Kimberly Link, proxy for Jack Conway, Attorney General.

Others present at the meeting were; Carla Wright, Office of State Budget Director; F. Thomas Howard, Executive Director, Office of Financial Management and Secretary of the Authority; Brett Antle, Financial Analyst, Office of Financial Management; Robin Brewer, Office of Financial Management; Robert Ramsey, Office of Financial Management; Edgar C. Ross, Executive Director, Office of the Controller and Executive Director of the Authority; Doris A. Howe, Office of Financial Management and Treasurer of the Authority; Marcia Collins, Office of Financial Management and Authority Staff.

Chairman Hayes having verified that a quorum was present and that notice of the meeting was properly posted in accordance with KRS 61.800-61.850, called the meeting to order.

First item on the agenda was approval of the minutes of the June 23, 2008 meeting. Lori Flanery made a motion to approve and George Burgess seconded. The motion carried unanimously.

Second item on the agenda was the request for the semi-annual transfer of funds. Doris A. Howe stated for the board that the Authority is requesting \$125,000 to be moved from the Transportation Cabinet Road Fund to the Authority to meet operating expenses. Ms. Howe also pointed out to the board that the \$125,000 represents the remaining half of \$250,000 that was previously budgeted for the fiscal year. Ms. Howe presented the board with an expenditure report, a balance sheet, and a transaction report that depicts all checks written on the Authority account. Ms. Howe also noted that in the future the board will see a decrease in funds requested along with checks written by the Authority due to the reorganization of the Authority. Tom Howard noted to the board that he was happy to report to the board that the Office of Financial Management has almost fully implemented the plan that began awhile back resulting in more efficient measures of operating the Authority and as Ms. Howe indicated would see a decrease in expenditures. Kimberly Link made a motion to approve and Mike Hancock seconded. The motion carried unanimously.

Next item on the agenda is the approval of the (BRAC) Base Realignment and Closure Bond Reimbursement Resolution. Tom Howard stated for the board that it is the intent of the Authority to reimburse itself through the proceeds of a tax exempt bond issue for this project. Mr. Howard stated that it is a matter of custom with all state appropriated projects such as; SPBC (State Property and Buildings Commission), Turnpike Authority, or the issuing agency; upon its intent to spend money, will essentially reserve a place holder with the IRS (Internal Revenue Service) so there is no run in with any tax law issues. Mr. Howard further stated that under HB 406 the BRAC Bonds with a total authorization of \$135 million, \$50 million of the BRAC Bond will be issued by the Turnpike Authority and secured on a parity basis with the other Turnpike Authority Economic Development Bonds. The AVIS (Automated Vehicle Information System) Project authorized for \$25 million and the Aviation Bonds authorized for \$60 million are not on parity with the Economic Development Road Bonds and will have to be secured with direct appropriations of the Road Fund. Mr. Howard further noted for the board on July 14, 2008 and subsequently October 3, 2008 the State Property and Buildings Commission authorized the reimbursement for the AVIS Project and the Aviation Bonds, respectfully on those dates. Mr. Howard went on to note that we will look to finance, if needed, AVIS and the Aviation Bonds or a portion of Aviation Bonds with the next State Property and Buildings Commission issue with a road fund transaction in February, 2009. Mr. Howard further indicated that we would also look to include the BRAC financing in the next permanent financing of the Turnpike Authority, which is expected to be sometime in the spring of 2009, and we will convene this body to authorize the issue before going to market. Mr. Howard went on to say that this is just the interim step to take to prepare for a bond issue this spring.

Mr. Howard also refreshed the board with an overview of HB 380 which authorized the amount of \$350 million of Highway Bonds with \$200 million being permanently financed with the 2008 Series A Bonds and \$100 million worth of interim financing through the ALCo (Kentucky Asset/Liability Commission) Project Note program (2007 Series A Notes) and \$50 million remaining that is authorized but unissued. Depending on the expenditure schedules this amount will possibly be rolled into a permanent financing this spring along with a conversion of the interim ALCo Notes, permanent financing. The ALCo Notes were spent in their entirety back in August, 2008 and Mr. Howard noted that would be further explained by Brett Antle in the next segment of the meeting. Mr. Howard proceeded saying that the 2008 Series A Bonds, have spent forty-six percent (46%) of the bond proceeds and have proceeds left that should carry through early summer depending on market circumstances. Mr. Howard concluded by noting to the board that this BRAC Resolution in a snapshot, is the preparation for reimbursement and issuing bonds. No money has been spent on the BRAC project as of yet which leaves a sixty (60) day window to go back on from the date of this resolution and would meet well within the timeframe prescribed by the tax code. A motion was made by George Burgess and seconded by Mike Hancock. The motion carried unanimously.

The next item on the agenda is the financing update. Brett Antle presented to the board, a graph depiction of the ALCo Road Fund Commercial Paper program. Mr. Antle reviewed for the board the "Daily Weighted Average Yield" chart of the commercial paper that is outstanding in the ALCo Program which is grafted against the short term municipal tax exempt index that is benchmarked against the Securities Industry and Financial Markets Association (SIFMA) Index. Mr. Antle explained to the board since the inception of this program that it has been tracked closely to the SIFMA Index over time and noted that around September and October the graph will show dislocation due to subsequent events happening within the market. Mr. Antle also points out to the board that the chart illustrates dramatic spikes in the Short Term and Commercial Paper (CP) rates due to the dislocation in the market at that time and further showing that it traces back down to current levels. Mr. Antle informs the board there is currently \$100 million outstanding in commercial paper, with a bulk of that trading at approximately two percent (2%) essentially rolling on a day to day basis. Mr. Antle further noted for the board that comparatively it is along the same lines as the long term bond rates and gave the board further insight as to the advantages of being on the short end of the yield curve.

Mr. Howard also commented on the graph pointing out the differences of the liquidity provider that is in place and the trading differential between that of the index versus some of the stronger U.S. Banks that are now backed by the Federal Government. Mr. Howard noted that the existing documents have a twenty (20) year term out provision that you cannot get from banks today and proceeded to explain that if we were to give up this low cost facility now, we would be subject to a five (5) year balloon or term out provision that would add additional pressure. Mr. Howard further noted that we would gain no benefit by changing the terms of the existing documents and are very reluctant to give up this very inexpensive liquidity provider.

Mr. Howard gave the board further insight to the graph pertaining to the US Treasury trading versus AA+ Transportation credits, meaning fixed rate bonds. Mr. Howard also noted that the Short Term Program is working exactly how it is intended to work and that staff will continue to react to market conditions in order to protect the Road Fund as deemed.

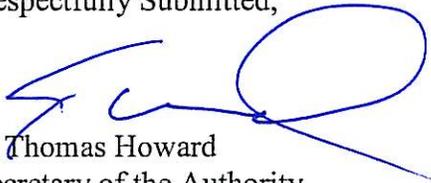
Mr. Antle concluded the financing update by explaining the Interest Rate Swap Position for the Turnpike Authority. Mr. Antle explained that the Total Return transaction from the 1985 A Bonds is set to expire January 1, 2010 and will be receiving a final payment on that transaction which will be approximately \$400,000. The Fixed Rate leg of that transaction where we are paying 3.87% will expire around July 1, 2010. Mr. Antle further stated the intentions are to liquidate that transaction and that there will be some termination cost associated with that but will allow us to take that volatility out and net that into the final payment from the total return transaction. That money will be placed in the swap account and turned over to the Transportation Cabinet to be used to pay current year debt service and free up additional funds for the Road Fund which currently has approximately \$4.7 million in that account. Money from the final payment will be turned over to the Transportation Cabinet in the beginning of 2010 which will add an additional \$4 million.

Mr. Howard gave the board some further insight as to the Forward Delivery Agreement which is essentially a form of derivative transaction where Morgan Stanley delivers roughly \$57 million in Commercial Paper every six (6) months to the Debt Service Reserve Fund. Mr. Howard reassured the board that the investment agreement with Morgan Stanley is secured by collateral of US Treasury and would have to be posted in the event of a downgrade below Triple B.

The last item on the agenda was the approval of the Authority's 2008 audit. Ed Ross informed the board that the Authority received a clean opinion on all three projects; Economic Development, Resource Recovery, and Toll Roads. Mr. Ross further noted that the auditor made one minor suggestion to notate the check number on the invoice that was being paid and stated that the Authority has complied with that suggestion. Mr. Ross also commended Mr. Howard and his staff for the work they do on getting excellent rates on permanent and interim financing. In the absence of any further comments or discussion the audit was accepted and approved by the board.

Chairman Hayes asked if there was further business to be addressed; none was presented. Chairman Hayes called for adjournment and without objection the meeting was adjourned.

Respectfully Submitted,



F. Thomas Howard
Secretary of the Authority